

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION	)	
OF SUEZ WATER DELAWARE INC.	)	
FOR A GENERAL INCREASE IN RATES	)	PSC DOCKET NO. 16-0163
AND FOR A REVISION OF ITS GENERAL	)	
TARIFF (FILED FEBRUARY 5, 2016)	)	

DIRECT TESTIMONY OF

AMY WOODWARD, EA

ON BEHALF OF

COMMISSION STAFF

NOVEMBER 18, 2016

1           **Statement of Qualifications**

2           **Q:     State your name and the name and address of your employer.**

3           A:     Amy Woodward. I am employed by the Delaware Public Service Commission  
4                   (the “Commission”). My work address is 861 Silver Lake Boulevard, Suite  
5                   100, Dover, Delaware, 19904.

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7           **Q:     What is your position with the Public Service Commission?**

8           A:     I am a Public Utilities Analyst III with the Commission. I have been employed  
9                   with the Commission since April 2012.

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11          **Q:     As an analyst with the Commission, what is the general nature of your**  
12               **duties?**

13          A:     My duties include the review of filings by regulated utilities that propose  
14                   increases in rates and charges; planning and executing the annual compliance  
15                   and financial reviews for wastewater utilities; analysis of utilities requesting the  
16                   issuance of debt securities; planning and participating in the audit of small  
17                   regulated companies; conducting reviews of source documents at utility offices,  
18                   and evaluating the financial, managerial, and technical conditions of utilities.

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20          **Q:     What is your professional experience and education?**

21          A:     I received an Associate of Applied Science Degree in Accounting from  
22                   Delaware Technical and Community College, and I received a Bachelor of  
23                   Science Degree in Accounting from Wilmington University. I also received a  
24                   Graduate Certificate of Financial Management in Organization and a Master of  
25                   Science Degree in Accounting and Financial Management from the University  
26                   of Maryland University College in 2007. I am an Enrolled Agent (“EA”)  
27                   authorized by the U. S. Department of the Treasury to represent taxpayers  
28                   before the IRS for audits, collections, and appeals. My education and  
29                   professional experience have provided me with a detailed understanding of  
30                   utility rate structures, as well as in mathematical logic and financial analysis. I

1 have also gained knowledge in the areas of residential, commercial and  
2 industrial operations in the energy industry.

3  
4 **Q: For whom are you testifying in this proceeding?**

5 A: I am testifying on behalf of the Commission Staff ("Staff").  
6

7 **Q: What is the purpose of your testimony?**

8 A. The purpose of my testimony is to present my recommendations on certain  
9 adjustments proposed by Suez Water Delaware Inc. ("SWDE" or the  
10 "Company"), specifically those concerning property taxes, the so-called  
11 "convenience cost" adjustment, and the Management Service Fees expenses.  
12

13 **Property Taxes**  
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15 **Q: Have you carefully reviewed SWDE's proposed adjustment to its test year**  
16 **property tax expense?**

17 A: Yes, I have.  
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19 **Q: Please briefly describe the adjustment SWDE is proposing.**

20 A: SWDE's adjustment takes test year property taxes of \$1,408,016 and divides  
21 that amount by \$160,440,432, the test year gross plant in service, to calculate  
22 an effective property tax rate – 0.00878. The effective tax rate of 0.00878 is  
23 then applied to the test period gross plant balance of \$172,505,981 resulting in  
24 a property tax adjustment of \$105,887.  
25

26 **Q: Since the original filing has SWDE made any other adjustments to the**  
27 **property tax?**

28 A: Yes. In Discovery Response PSC-PT-3, SWDE notes that its actual 2015  
29 property taxes paid were different than the amount that was originally submitted  
30 in the filing. In Discovery Response PSC-PT-1, the Company stated that the  
31 difference can be attributed to timing to the September 30, 2015 Test Year. The

1 annual property tax expense now appears to be \$11,115 more than what was  
2 shown in SWDE's original filing.

3  
4 **Q; Do you agree with SWDE property tax adjustment?**

5 A: No, I do not. I believe that the Company should use the 2015 effective tax rate  
6 of .00880, as updated in its Discovery Response PSC-PT-2.1 in addition to  
7 using the updated amounts of \$1,419,163 for test year property taxes and test  
8 year gross plant in service of \$161,187,298. This would then make the  
9 adjustment \$86,375, as shown in Exhibit AJW-Exp 1. This is a \$19,512  
10 downward adjustment to the original filing of \$105,887, and nearly the same as  
11 that shown in SWDE's October updated filing.

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13 **Convenience Cost**

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15 **Q: Please describe SWDE's convenience cost adjustment.**

16 A: Customers who are paying their monthly bills with a credit card are presently  
17 charged a fee by their credit card company. SWDE has proposed to now cover  
18 the fees as part of the revenue requirement rather than having credit card-paying  
19 customers directly pay this cost. SWDE's adjustment reflects a forecasted 25%  
20 increase in credit card activity use and a test period expense of \$87,179,  
21 according to SWDE's WP Schedule 3B-11.

22  
23 **Q: Do you agree with SWDE's adjustment for credit card costs?**

24 A: Yes. The 25 percent increase in credit card usage assumption is based on the  
25 Company's response to PSC-CC-1, which reflects 33,015 credit card payments  
26 for June 2016. SWDE projects 35,047 credit card payment for the test period  
27 in its expense adjustment, which, in turn, results in a customer convenience  
28 cost for the test period of \$87,179. SWDE's adjustment in this regard is  
29 reasonable and should improve customer relations. It should also encourage  
30 more customers to pay with a credit card. This should result in decreased

1 collection costs and uncollectible expenses for the Company, savings which  
2 would ultimately benefit Delaware ratepayers.  
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6 **Management Service Fees**  
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8 **Q: Has SWDE proposed any changes to its Management Service Agreement?**

9 A: Yes, it has. As discussed by Gary Prettyman in his testimony and in Discovery  
10 Response DPA-1.72, the Cost Allocation Manual between Suez North America,  
11 Inc. and Suez Water Management & Services, Inc., (“Shared Services  
12 Company”) provides administrative, engineering, legal, operations, accounting,  
13 finance, human resources, purchasing, insurance, data processing, customer  
14 service, billing, public relations, planning and ratemaking services to the  
15 operating subsidiaries of Suez Water, Inc., which is wholly owned by Suez  
16 North America, Inc. (SNA). SWDE is a wholly-owned subsidiary of Suez  
17 Water, Inc. The Shared Services Company also provides non-regulated water  
18 distribution services to Suez Water Environmental Services, Inc. which serves  
19 municipalities throughout the United States. The Cost Allocation Manual  
20 dictates the manner in which costs will be charged to the regulated and non-  
21 regulated subsidiaries of SNA. Presently, the Cost Allocation Manual uses a  
22 number of allocators to distribute common expenses among participants to the  
23 agreement. SWDE now proposes to change the multiple allocator approach to  
24 one based on a three-factor formula for costs that are not directly charged. The  
25 proposed allocation factors will be based on the average of each participant’s  
26 relative gross revenue, total assets, and payroll weighted equally to determine  
27 the allocation factor for that business unit. In addition, the Shared Services  
28 Company provides services that may use shared assets such as computer  
29 hardware and software. The new Cost Allocation Manual provides for a return  
30 of and return on the assets placed in service that were not fully depreciated prior  
31 to December 2015 for each participant, including SWDE.

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**Q: When did SWDE begin using the new Cost Allocation Manual?**

A: SWDE implemented the new Cost Allocation Manual, changing how costs are allocated among the affiliates, in October 2015, at the same time that the Company implemented its new accounting system.

**Q: Did SWDE receive Commission approval of the new Cost Allocation Manual prior to implementing it?**

A: No, it did not. In fact, SWDE has not yet filed a petition with the Commission for approval of the new Cost Allocation Manual. According to Mr. Prettyman’s Direct Testimony in this proceeding, SWDE planned to seek approval after this rate case. Additionally, according SWDE’s response to DPA-1.101, the new Cost Allocation Manual and Affiliate Service Agreement was dated and signed July 21, 2016, seven (7) months after the allocation method was changed in the Company’s accounting system, without Commission approval. Also stated in Company’s response to DPA-1.101, they no longer believe Commission approval of the changes to the Cost Allocation Manual are required.

**Q: Has Staff had adequate time to analyze the proposed changes to the Cost Allocation Manual?**

A: No. Initially, Mr. Prettyman’s Direct Testimony led Staff to believe that SWDE would make a separate filing seeking approval of the proposed Cost Allocation Manual. It was only in response to discovery that Staff learned SWDE had altered its plans and would not make a separate filing seeking approval of the Cost Allocation Manual. Given this change, Staff did not have adequate time to analyze the new Cost Allocation Manual. Staff has been working diligently with SWDE to gain a better understanding of the proposed Cost Allocation Manual and its impact on Delaware ratepayers. But, we are not yet finished with our review. Thus, SWDE and the Commission Staff have agreed to sever review of any Management Service Fees from the rest of the case and to proceed with the rest of the case while addressing these issues during a second phase.

1           Thus, Staff's analysis in this case reflects a Management Service Fees  
2           methodology based on the Cost Allocation Manual that was in effect prior to  
3           the implementation of the new Manual in October 2015. At the conclusion of  
4           Staff's review of the newly-proposed Cost Allocation Manual, a further  
5           adjustment to SWDE's base rates may be necessary.  
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7           **Q:   Does this conclude your testimony?**

8           A:   Yes. Commission Staff, however, reserves the right to submit supplemental  
9           testimony on the proposed Cost Allocation Manual at a later date during the  
10          second phase of this proceeding.